

CAPITAL MARKETS DEVELOPMENT PROJECT IN THE REPUBLIC OF ARMENIA

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

**QUARTERLY REPORT FOR THE PERIOD
ENDING JUNE 2000**

Contractor/Submitting Party: PricewaterhouseCoopers LLP
Contract Number: EPE-I-00-95-00043-00
Task Order Number: 11



Capital Markets Development Project in the Republic of Armenia

42/1 Arami Street, Yerevan, Republic of Armenia
Հայաստանի Հանրապետություն, ք.Երևան, Արամի 42/1

Phones: (3742) 589286, 589201, 589160
585232, 566526

Fax: (3742) 151275

Gov: (3742) 5708

TO: **Ann Richards COTR, USAID/Washington**
 Michael Greene, USAID/Yerevan
 John Irons, USAID/Yerevan

CC: **Tessie San Martin, PricewaterhouseCoopers**

DATE: **July 28, 2000**

Quarterly Report for the Period Ending June 2000

In addition to those set forth below by Task, activities during the quarter included various meetings and discussions with, among others, Mr. Martin Slough, World Bank (WB) Representative and Senior Financial Specialist, concerning, among other matters, the status of the draft Law on Securities Market Regulation; Mr. Gregory Maassen, International Finance Corporation (IFC) Representative and Corporate Governance Consultant under the IFC Corporate Governance Project in the Republic of Armenia (ROA) and others, including WB Representative Martin Slough and USAID Representatives Ben Allen and Fred Clapps, concerning the need to replace Armenia's current Law on Joint Stock Companies and related legal issues; Mr. Haik Margaryan of the Securities Market Members Association (SMMA) and Mr. John Watson, International Executive Service Corps (IESC) Volunteer and Consultant to the SMMA, concerning matters and issues affecting the growth and development of the SMMA; Mr. Vahram Nercissiantz, Economic Advisor to the President of the Republic of Armenia (ROA), concerning passage of the draft Law on Securities Market Regulation (SMR Law); Ms. Irina Neiderberger and Mr. Gregory Maassen, Project Manager and Corporate Governance Consultant, respectively, for the IFC Corporate Governance Project in the ROA, concerning the activities of the newly formed "Shareholders' Rights Protection Union" (SRPU), both jointly and separately with SRPU representatives Grigor Gasparyan, Nerses Hakobyan, Astghik Hambaryan and Armen Khudinyan; Dr. Armen Yeghiazaryan, Economic Advisor to the Prime Minister of the Republic of Armenia (ROA), concerning the necessity for concerted actions by the Government of Armenia (GOA) and National Assembly (NA) of the ROA to obtain passage of the draft Law; Mr. Gagik Yeghiazaryan, former Executive Director of the Armenian Development Agency (ADA), concerning efforts to attract foreign investment and promote the growth of the capital markets in the ROA; and, as well, various meetings or discussions involving USAID Representatives Michael Greene, Ben Allen and Fred Clapps, and/or representatives of various of the other USAID-sponsored economic and legal reform projects including Mr. Paul Dodds (Privatization Support Project) and Mr. Daniel Bosco (Commercial Law/Rule of Law Project).

As reported in our Monthly Report for September 1999, for reason of the inability to date to obtain adoption of the draft Law, we were directed by USAID Representative Richards that, for the timeframe from September 1999 to January 2000, we were to focus our activities on a discrete list of task activities, with our primary objective being to obtain early adoption of the draft Law. For a list of the activities, see **Attachment 1**.

During January 2000, a senior-level USAID Assessment Team comprised of USAID representatives Walter Coles, Richard Johnson and John Carihfield conducted a review and comprehensive assessment of the economic restructuring programs (including this Project) being implemented by USAID in the ROA. As a result of recommendations determined and made by the USAID Assessment Team, at the end of January 2000, a decision was taken to extend the Project on a “no-cost” basis for the period from the end of February 2000 to the end of April 2000. During the period of the no-cost extension, we have been directed to focus on i) adoption of the draft Law; ii) completion of SRS Pilot Program activities (see Task A below); iii) assistance to the Securities Market Inspectorate (SMI) of the ROA with further development of the regulatory framework pertaining to stock exchanges and self-regulatory organizations (SROs); and iv) with regard to SRO development, assistance to the needs of the Securities Market Members Association (SMMA) as the nascent broker and dealer SRO in the ROA.

During March 2000, USAID Representative Ann Richards visited the Project and at that time, as a result of a series of meetings and discussions which took place at that time between her and the local USAID Mission, advised that a decision had been taken to extend the Project on a “no-cost” basis for the remainder of the year. USAID Representative Richards also advised that for the remainder of the year, activities would “more than likely be focused on: i) further development of the SMMA, ii) finishing consolidation (meaning that all further consolidation activities were directed to be ceased at April 30, 2000), iii) work with the SMI if a securities law gets final passage, and iv) institutionalization of the CDA (see **Attachment 2**). At that time, USAID Representative Richards further advised that the technical assistance (T/A) and “other direct costs” envisaged by us to support these activities should fit within certain funding limitations which had been established by the local USAID Mission. USAID Representative Richards then directed that for the period going forward from May 1, 2000 to December 31, 2000 we were to prepare and promptly submit to her a pro forma budget and detailed work plan. Accordingly, the same were promptly prepared and submitted to USAID Representative Richards together with a Work-Plan Status Report for the Project at April 30, 2000 (see **Attachment 3**). As a result of these actions, on April 26, 2000, pending final negotiation and award of Task Order Modification No. 5 which was expected to occur within 30 days thereafter, USAID Contracting Officer Theresa Pollitt issued a “Notice to Proceed” (NTP) under the Task Order effective from May 1, 2000 (see **Attachment 4**). Thereafter, on June 2, 2000, Task Order Modification No. 5 was duly issued by USAID Contracting Officer Pollitt formally extending the project for the remainder of the year and incorporating into task activities for the Project the “Supplemental” Scope of Work contained in Attachment 1 thereto. For a copy of Attachment 1 to Task Order Modification No. 5, see **Attachment 5**.

To assist in the above and in various of the activities set forth below, during the quarter, in addition to our two long-term advisors, the technical assistance (T/A) services of various Expatriate and Third Country National capital markets specialists and attorney advisors were called upon.

1. Task A. Assistance to the SMI (“Securities Markets Inspectorate”) formerly known as the Securities and Exchange Inspectorate or “SEI”

Primary activities to provide assistance to the SMI focused on the following:

- i) Obtaining passage of the draft Law. As previously reported, activities focused during December 1999 on continuing efforts to obtain approval by the NA Committee on Financial-Credit, Budgetary and Economic Issues (NA Committee) of the draft Law which was approved “in principle” by the GOA on October 24, 1999 and sent to the NA Committee on November 8, 1999. The NA Committee approved the draft Law on

December 23, 1999 with an indication that it would be placed on the agenda of the NA at beginning of the next session of the NA which was scheduled to commence on February 7, 2000.

The process for “first” reading of the draft Law was commenced on February 9, 2000. At that time, acting on behalf of the GOA, Mr. Mouradian presented the draft Law to the NA with eight members indicating their desire to address questions on the draft Law to Mr. Mouradian. The regular three-day working session of the NA ended on that date with questions and answers, and deliberations on the draft Law being deferred to the next regular three-day working session of NA which was scheduled to commence on February 21, 2000

As reported in the Monthly Report for February 2000, during a “confused” vote on approval of the draft Law on “first” reading which took place on February 21, 2000, the draft Law was not approved on first reading and, as at the end of the month, the status of the draft law was such that with “cosmetic” changes it was anticipated that the GOA would send the draft Law back to the NA with a note from the Prime Minister (PM) requesting that it be re-approved by the NA Committee and placed for first reading on the agenda of the next earliest regular three-day working session of the NA.

On March 3, 2000, we were advised that late on the evening of March 2, 2000 the draft Law had been sent back to the NA Committee under the signature of the PM and that it would be put on the agenda of the regular three-day working session of the NA scheduled to commence on March 6, 2000. On March 7, 2000, the draft Law was reached for discussion for approval on first reading; but, due to the lack of a quorum being present at that in the NA, voting on the draft Law was postponed to March 8, 2000. On March 8, 2000, due to the inability of the GOA to determine the presence on the floor of the NA of a sufficient number of members of the NA that were believed by the GOA to favor approval of the draft Law on first reading, a decision was taken by Mr. Edward Mouradian, the Head of the SMI, to postpone voting on approval of the draft Law on first reading to the next regular three-day working session of the NA scheduled to commence on March 20, 2000. At that time, because of the focus of attention and political opposition by several outspoken members of the NA to the fact that Chapter XII of the draft Law envisaged (as is required by the Constitution of the ROA) that the President of the ROA would appoint the members (Commissioners) of the Securities Commission, Mr. Mouradian made a strategic decision to remove Chapter XII from the draft Law when resubmitting it for approval on first reading on March 20, 2000.

On March 20, 2000, the draft Law (absent Chapter XII) was submitted to a vote for approval on first reading by the Chairman of the NA Committee, Mr. Vardan Khachatryan, and was duly approved. At that time, however, neither Mr. Mouradian nor any other representative of the GOA was present, as in the interim, under the pressure of criticism by certain members of the NA for the forceful manner in which he had attempted to obtain approval of the draft Law on first reading, Mr. Mouradian had been forced to resign as Head of the SMI. By the end of March 2000, Mr. Tigran Karapetyan had been re-appointed as Head of the SMI.

At the beginning of April 2000, the status of the draft Law was such that it was anticipated that a “political” solution would be found for dealing with Chapter XII and that, as required by the Regulations on the NA, the draft Law would be reached for a “second” reading within one month (the regular three-day working session of the NA to commence on April 17, 2000) from the date of its approval on first reading. During that

month, we continued to assist the SMI to try to find an appropriate basis for a politically acceptable solution to the “Chapter XII” issue (see **Attachment 6**); however, by the end of the month, although it was not clear on what basis the Chapter XII issue would be resolved, we had reason to believe that the draft Law would be submitted to the NA for a second reading during the month of May 2000. During the month of May 2000, however, with the resignation of Prime Minister Aram Sargsyan on May 2, 2000, and the appointment of Prime Minister Andranik Margaryan on May 12, 2000, the political progress again became bogged down with acrimony continuing between the NA, the GOA and the President. Nonetheless, discussions and efforts continued with the NA Committee and the SMI to finalize draft proposed changes and amendments to the draft Law, including those relating to Chapter XII. Whereas during the middle of the month we reasonably anticipated that the draft Law would be heard for a second reading during the three-day working session of the NA which commenced on May 29, 2000, this did not occur. The draft Law was the 10th item on the agenda for the session and was not reached for discussion before the session ended on May 31, 2000.

Other efforts during the month of May 2000 to encourage the process of passage of the draft Law included a meeting on May 22, 2000 with the President's Chief Economic Advisor, Vahram Nercessiantz, which involved USAID Representative Michael Greene and the PwC Chief-of-Party, Donald Hart. At that time, Mr. Nercessiantz reaffirmed the President's support for passage of the draft Law and undertook in his next discussions with the President to urge further supportive actions by the President to obtain passage of the draft Law. Importantly, as well, additional efforts during that month to support passage of the draft Law and the institutional development of the SMI, included numerous public relations initiatives organized and/or supported by us to assist the SMI keep the public apprised of the need for passage of the draft Law and the status of the SMI's efforts to obtain passage of same in the NA.

On June 1, 2000, the GOA Council of Ministers took action to require a series of several extraordinary sessions of the NA to occur during the month of June 2000. At the first such session, called on June 5, 2000, a "first reading" was called to consider Chapter XII and other new additions and changes to the draft Law. At that time, after somewhat heated discussions, a vote for adoption on first reading was called for, but the outcome of the voting process became muddled with the result that the vote was (re)scheduled as the 5th item on the agenda for the extraordinary session of June 12, 2000. The draft Law was not reached, however, for further consideration on June 12, 2000 and was put over to the extraordinary session of the NA called for June 27, 2000. On that date, the draft Law was (re)read on "first reading" as an entire document (with all previously read Chapter XII and other new additions and changes placed within it) and was again "adopted" on first reading and immediately placed back upon the agenda of the extraordinary session for a "second reading". The draft Law was not reached, however, during the remainder of the extraordinary session and further consideration by the NA was continued to the extraordinary session of the NA called for July 6, 2000. For more details, see **Attachment 7**.

Importantly, as well, during the quarter, other efforts to support both passage of the draft Law and institutional development of the SMI, included numerous public relations initiatives organized and/or supported by us to assist the SMI keep the public apprised of the need for passage of the draft Law and the status of the SMI's efforts to obtain passage of same in the NA (see **Attachment 8**).

- ii) Assisting the institutional development of the SMI through activities including staff training, drafting assistance and meetings with the Head of the SMI (and various SMI

staff) at which relevant securities market legal, regulatory and developmental issues were discussed. Importantly, during the quarter, substantive efforts continued to provide support and assistance to the Head of the SMI to obtain passage of the draft Law. In this context, substantive efforts continued to identify an appropriate model for the SMI to recommend to the NA in establishing a politically acceptable procedure for the selection of the Commissioners to the “independent” Securities Commissions which is to be established following adoption of the draft Law. Other relevant activities during the quarter included continued public relations initiatives involving the Head of the SMI, Tigran Karapetyan, and Deputy Head, Artsvi Minasyan to promote passage of the draft Law. Additional activities during the quarter included discussions with the staff of the SMI, concerning, among other matters, the current regulatory framework for regulating the activities of brokers and dealers, and self-regulatory organizations (SROs), and in June 2000, a training program was developed and provided for the staff of the SMI and others which was built around the successful sale of state shares under the SRS Program (see herein below);

- iii) Surveying all laws of the ROA as apply to securities market activities, including efforts to ensure “harmonization” of the draft Law with same. In this regard, efforts also continued to obtain adoption of the proposed amendments which we have recommended to the Joint Stock Company (JSC) Law, the purpose of which would be to ensure the efficient functioning of future registry and depository activities. During August 1999, the GOA reaffirmed its approval and support for the proposed amendments by returning them for action to the NA. The next step in the process, as again discussed and reconfirmed in December 1999 with the Chairman of the NA Committee and with Mr. Vladimir Nazaryan, Chief Legal Advisor to the NA, will be to have the proposed amendments to the JSC Law joined for consideration with the draft Law. In this connection, meetings were held during last month and this month with representatives of the IFC, USAID and others to consider, among other matters, efforts to support the drafting of a new JSC Law for the ROA. The outcome of these meetings was uneventful, however, as an appropriate GOA or NA counterpart to “champion” the drafting of a new JSC Law could not be identified. During the quarter, to support the efforts of our BDA/SRO Specialist (see below Task E), activities included a legal review and analysis of the Charter of the SMMA to determine, among other things, its compliance with Armenian legislation, in general, and, in specific, the draft SMR Law. As a result of these efforts, the need for certain amendments and additions to the Charter of the Securities Market Members Association (SMMA) were identified and discussed with representatives of the SMI and the SMMA; and
- iv) Building the functional capacity of the CMMU and expanding and improving the CMMU’s database. As previously reported, during July 1999, the CMMU database was installed in the SMI and SMI specialists were trained on how to use and maintain the database. Since that time, on going substantive efforts have been directed toward continued development and refinement of the CMMU database to best meet the needs of the SMI. Other on-going activities during the quarter included an on-going analysis of stock exchange activities, including a comparative analysis of the activity reports filed by member firms and stock exchanges with the SMI. During May 200, Version 3.0 of the CMMU Software and Documentation; in both the Armenian and English languages, was completed and delivered to the SMI. Other activities during that month included additional training to the staff of the SMI on use of the CMMU database and software; and, on May 19, 2000, publication of the CMMU’s second broker/dealer report entitled: “Analysis of the Broker/Dealer Industry” (During the First-Half of 1999). For more on the CMMU’s activities for the quarter, see **Attachment 9**. During June 2000, the CMMU completed development of a Policy and Procedures Manual for the SMI

Inspection Department; and, on June 10, 2000 published in the Armenian language its second broker/dealer report entitled: "Analysis of the Broker/Dealer Industry" (During the First-Half of 1999).

In addition to the foregoing, other related activities have and continue to include several substantive efforts by our Expatriate Investment Banking and Training Specialists to design and develop programs to provide T/A to the Ministry of Privatization (MOP) and/or the SMI.

The first such effort has focused on T/A to the MOP and SMI to facilitate the sale of state shares remaining in privatized enterprises with less than 50% state ownership remaining – the “SRS Pilot Program” – a primary purpose of which is to develop and enhance the capacity and skills of brokers and dealers to act as financial advisors and underwriters. A follow-on purpose for this activity has been to leverage the SRS experience to build the institutional capacity of the SMMA. To commence the process, two major training components were developed and delivered in April 1999 and since that time various others have been developed for delivery during realization of the SRS Pilot Program and follow-on initiatives involving the SMMA.

During November 1999, despite numerous delays and the fact that the second of two required GOA “SRS” Decrees was not finalized until November 2, 1999, we were granted approval by USAID to proceed with the SRS Pilot Program. The SRS Program moved into “high” gear and by the end of the month six brokerage firms had been selected to participate in the SRS Pilot Program and all 15 SRS Companies allocated between them. With this accomplished, at the end of November 1999, our expatriate Investment Banking and Brokerage Specialist team arrived in Yerevan and activities were set to move into full swing during December 1999. These activities included an “Introduction Workshop” for participating brokers and, importantly, a series of group and one-on-one meetings with the participating brokerage firms involving members of expatriate specialist team and our local professional specialists (with each of our local professional specialists being assigned a participating brokerage firm for which the specialist was responsible to monitor the quality and timelines of all documents to be prepared by the brokerage firm). By December 1999, five prospectuses had been prepared, approved by the MOP and were in the process of approval by the SMI; and, prospectuses for the remaining ten companies were being finalized for approval by the MOP and SMI during the first-half of January 2000. In addition, as of the end of December 1999, seven companies were in compliance with the requirement to use (had agreed to have their registers maintained by) the services of the CDA.

During January 2000, activities were intensified for the purpose of moving the SRS Companies to market (sale) at the earliest opportunity. As a result of these activities, at the beginning of February 2000, four SRS Companies were set for sale on February 18, 2000, three were set for sale on February 23, 2000 and four were set for sale on March 2, 2000. During February 2000, activities were focused and put into motion to assist the participating brokers in effectively marketing the shares which were being offered. Among other activities, on February 11, 2000, a seminar on “How to Sell Securities” was provided to the participating brokers. Of the first four SRS Companies offered for sale on February 18, 2000, two companies received a total of seven bids and were sold with the other two companies failing to receive any bids. Of the second group of three companies offered for sale on February 23, 2000, one company received two bids and was sold with the other two companies failing to receive any bids. As of the end of February 2000, a third group of four SRS companies remained for sale on March 2, 2000 and a fourth group of two SRS companies remained for sale on March 17, 2000. Of the third group of four SRS Companies offered for sale on March 2, 2000, three companies received a total of five bids and were sold

with the fourth company failing to receive any bids. Of the fourth group of two SRS companies offered for sale on March 17, 2000, both companies failed to receive any bids.

To “wrap-up” the SRS Pilot Program in such a manner as to capture and document to the fullest the individual experiences, both good and bad, of the participating brokers and to afford an opportunity for the brokers to share their experiences with representatives of the MOP, SMI, and SMMA, a “Pilot SRS Lessons Learned Workshop” was conducted on March 22, 2000. For purposes of the workshop, the participating brokers were surveyed in advance and relevant information was gathered from them and analyzed. As a result of the analysis, the materials for the workshop were designed from the perspective of the SRS Pilot Program’s relevant participants – the MOP and SMI, the companies, and the brokerage community. This was done so as to focus on both the outcome of SRS Pilot Program and the prospects for similar activities in the future. It is important to note that, Deputy MOP Markossyan and (then) Deputy SMI Head Karapetyan actively participated in the workshop and, as well, in the substantive head-to-head discussions which took place with the participating brokers. Importantly, too, it should be noted that during these discussions, Deputy MOP Markossyan re-affirmed the continued willingness of the MOP to work with the brokers in the future SRS and similar privatization initiatives. Deputy MOP Markossyan also indicated his willingness to receive from the brokers a list of the companies which the brokers felt they could assist to be sold and privatized.

To more fully document the results of this activity, during April 2000, an SRS Pilot Program “Assessment Report” was rendered (see **Attachment 10**). As indicated above, during USAID Representative Richards visit in March 2000, acting in agreement with the local USAID Mission, a decision was taken to extend the Project on a no-cost basis for the remainder of the year and we were directed by USAID Representative Richards to focus, among other matters, on activities to support the further (institutional) development of the SMMA. In this connection, during her visit in March 2000, three focused activities were proposed to USAID Representative Richards to support the further institutional development of the SMMA (see **Attachment 11**). During April 2000, after due consideration was given to the limited amount of funds which could be identified to extend the Project through the remainder of the year, a decision was taken by USAID Representative Richards and we were directed only to provide the first of the activities – “Leverage the experience of the Pilot SRS (Program)” – which we had proposed.

Accordingly, T/A to support this activity was built into the pro forma budget and Supplemental Scope of Work approved by Task Order Modification No. 5 (see herein above and **Attachment 5**). The result was extended efforts by us to institutionalize the capacity of the SMMA to provide valuable training to professional securities market participants (PSMPs). This was done through the delivery of two training programs. The first program was a Training of Trainers (T-O-T) Program which was conducted on June 9, 2000. The T-O-T Program focused on development of the capacity of the six participating SMMA member brokerage firms to provide training to PSMPs through delivery of the SRS "Case Study" and Training Program which were specifically developed for that purpose. The SRS Case Study (entitled: "Sales of Residual Shares in Armenia: Leading the Company to the Market") and Training Program focused on the following: the role of brokers and their successful involvement in the SRS program; brief presentations about the Sales of Residual Shares Program, techniques for selling securities; different work aspects during the SRS process, including, preparing Prospectuses and developing Business Plans, and Company Profiles; working with Management; evaluating strategic options; financial analysis; marketing and selling securities; summarizing the results of the SRS program; and discussing the case study. The second program was a workshop and was delivered by the trained

trainers to over 40 other PSMPs (including 11 SMI staff members) on June 14, 2000. For more details, see **Attachment 12**.

The second such related effort – the “Broker-Dealer Qualification Training and Testing Program” – has focused on T/A to the SMI and SMMA and has been designed to enhance the professional skills and qualifications of brokers and dealers. This has been accomplished by expanding the SMI’s capacity to administer a more thorough qualification testing program for the licensing of brokers and dealers, and, at the same time, the SMMA's capacity to provide qualification training to brokers and dealers.

By the end of August 1999, a total of 855 suggested questions for Broker-Dealer qualification testing had been developed, edited and consolidated into appropriate categories for administering the broker and dealer testing process. By the middle of October 1999, the course materials for the nine training modules envisaged to be required to properly train examnants for the new qualification test had been completed and steps had been taken to mobilize our team of expatriate Training Specialists to deliver the Broker-Dealer Qualification and Testing Training of Trainers (T-O-T) Program during the week of October 25, 1999. In advance of the T-O-T Program, on October 22, 1999, our Training Specialists also provided a one day seminar on “Selling Securities in the Republic of Armenia”, a seminar which had been developed and targeted to support the SRS Pilot Program. Though commenced on schedule, the T-O-T Program was, however, forced to be halted after three days of training due to the assassination of Armenia’s Prime Minister and others on October 27, 1999.

During November 1999, activities were, however, immediately refocused to conclude the T-O-T Training Program which was successfully concluded in training activities which were conducted between November 22 and 24, 1999. In parallel with the T-O-T activities, our IT staff worked to conclude the design and development of the software (database management system) necessary for the SMI to administer the qualification testing process. By the end of November 1999, development of the software was basically completed and plans were being made to load the database of test questions in order that the new qualification testing system could be demonstrated and, importantly, rigorously tested and made ready for use by the SMI.

During December 1999, in furtherance of these activities, efforts continued to finalize the study manual which we had undertaken to develop with the SMI to assist examnants to study when preparing for the new qualification test and the software which we had designed to accommodate the use of a computerized testing regime. By the end of December 1999, both of these efforts were substantially completed. By the beginning of February 2000, the examnant study manual had been completed and a copy delivered to USAID Representative Richards. During the past several months, efforts have been redoubled with the SMI to review and finalize the examination questions, to complete development of the testing software and to populate the software database.

During May 2000, these efforts were completed (see below Task B); however, as reported below (see Task E) we have for the present time taken a decision to defer from installing a “Broker Qualification Testing Center” (a LAN-based computer classroom environment in real-time mode) within the SMMA until various issues which we believe to affect the appropriateness of doing so are satisfactorily resolved. In this regard, as reported below in Task E, concrete steps were taken during this month to encourage appropriate changes within the organizational structure and governance practices of the SMMA and thus to address certain of our concerns.

2. Task B. Development of Trading System

As agreed earlier in the year with USAID Representative Richards, rather than focusing on efforts to promote the National Market System (NMS), since February 1999 our efforts have been primarily focused on how to enhance the functional and operational capacity of the National Centralized Registry (NCR) of the Central Depository of Armenia (CDA) – for more details see below Tasks C and D. During February 1999, USAID Representative Richards authorized the purchase of certain “Phase I” purchases to enhance the functional capacity of the NCR and, in addition, other actions intended to allow the “mass” consolidation of share registers to begin as from May 1, 1999 (see below Task D). However, as previously reported, due to the need to temporarily relocate the NCR/CDA to another location (pending provision by the GOA of new permanent quarters for the NCR/CDA), the installation of certain of the Phase I purchases were delayed until June 1999 by which time a temporary location had been determined and made ready for use by the CDA. For more details in these and other activities designed to establish the functional capacity of the NCR/CDA to maintain shareholder registers, see below Tasks C and D.

During September 1999, in further reviewing with USAID Representative Richards various of the activities which were proposed by us to realize the NMS, approval was given, as a first step toward realization of the NMS, for the development of an “Armenian Stock Exchange” (ASE) Website. During October 1999, activities continued to realize the timely development of the website, including the hiring of a local “web-master” and actions which were intended to ensure linkage between the Armenian Stock Exchange Website and the Armenian Development Agency’s Website (the “Gateway to Armenia” Website which is being developed with assistance from the WB), and the Ministry of Privatization’s Website (which is being developed with the assistance from USAID).

During December 1999, our preliminary development efforts were realized, when, by the end of the month, the ASE website was ready for demonstration using our office LAN system and Internet site. During the past several months, much of our IT attention has been focused on providing on-going IT support to the SMI. This has been done to more fully institutionalize the SMI’s use of the CMMU and ISIN databases, and to facilitate the SMI’s use of the broker-dealer qualification testing software which we now consider to be a reasonably fully developed product. Additional IT efforts have included those to realize population of the ASE Website (see herein above) database and, most importantly, to implement for full use by the CDA the share registry software which has been provided to the CDA under the Project (see below Task D).

As a result of these and other related efforts, as of the end of May 2000, we had successfully completed virtually all of the IT (software development) efforts which have been undertaken by us under the Project. These include development of the: i) SMI/CMMU Database Software (100% complete); ii) ISIN Database Software (100% complete); iii) Brokers Qualification Examination Software (100% complete); iv) CDA Share Registry Software (100% complete); and v) “Web - Family” of software products which we have undertaken to develop – the Armenian Capital Markets Web Site (75% complete); SMMA Web Site (Homepage) and Open Joint Stock Companies Database in HTML Version (100% complete); SMMA Web Site (Homepage) and Open Joint Stock Companies Database and Web Site in Cold Fusion Version (100% complete); CDA Web Site (Homepage) in Russian language version (95% complete); and SMI Web Site (Homepage) (20% complete). For more details, see **Attachment 13**. At present, efforts continue to complete all remaining work on a timely basis.

As previously reported, in connection with this activity and to further explore the possibility for consolidation or merger of Armenia's four stock exchanges, it should also be noted that in September 1999, we undertook an analysis of the Yerevan Stock Exchange's Automated Trading System (SEDGAP). Regrettably, the level of cooperation and information received from the Yerevan Stock Exchange failed to permit a meaningful analysis of SEDGAP's capabilities. However, based upon the extent of documentation provided and a visual demonstration of the system's functions, we are able to indicate that while it would appear the SEDGAP system has been designed using contemporary technology, it has not been put to rigorous testing by brokers and is not believed to be a commercial grade software product.

As indicated above (see Task B), as a result of discussions in mid-September 1999 involving USAID Representative Richards and former SMI Head Mouradian, a series of one-on-one meetings were held in late September 1999 with the Presidents of each of Armenia's four stock exchanges. As also indicated above in Task B, the purpose of the meetings was two-fold: to determine the level of interest of the exchanges in participating in the "Armenian Stock Exchanges Website", and to determine from each their view concerning the possibility of a merger or consolidation of their activities with those of the other exchanges. The outcome was a clear indication of willingness on the part of all of the stock exchanges except the Yerevan Stock Exchange (YSE) to participate in the proposed Armenian Stock Exchanges Website. As for the possibility of a merger or consolidation of the four stock exchanges, while all four exchanges indicated their willingness to consider this possibility, each expressed concern over practical issues in doing so and all three of the smaller exchanges expressed concern over the apparent desire of the YSE to dominate the process.

3. Task C. *Development of Clearance, Settlement Process*

As previously reported, by the end of October 1998, our Expatriate central depository, clearance and settlement system design and development specialist (CSD Specialist) had completed the initial phase of his activities and delivered a detailed draft report on the functional specifications for an "Armenian Central Securities Depository" (CSD). More recent efforts have, among others, focused on the development of a detailed self-sustainability plan for the registry activities of the CDA. In efforts designed to encourage and facilitate a loan from the WB to the GOA to support development of the NCR/CDA, a copy of self-sustainability plan was, with consent of the GOA, provided to WB in June 1999. Other efforts in this regard have included assistance to the GOA to develop a detailed "Financing Proposal" for the CDA for consideration by WB, and support for the efforts of Mr. Tigran Davtyan, General Director of the CDA, to rally GOA support for approval of the WB Loan Proposal. In addition to providing assistance to Mr. Davtyan to draft the WB Financing Proposal, at the end August 1999, we also met with WB Representatives in Yerevan both to facilitate WB approval of the Financing Proposal and to obtain WB support for prompt passage of the draft Law and adoption of necessary amendments to the JSC Law. The meeting with the WB representatives resulted in certain provisions being added to the WB Strategy Mission's "Aide Memoire" which supported both of these matters. Portions of these provisions also subsequently found themselves in the "Draft Terms of Reference" for a WB "Financial Sector Vulnerability Assessment" of Armenia. As a result, a considerable amount of time was spent during October 1999 reviewing the state of Armenia's capital markets institutions with a WB Financial Sector Staff Analyst. At that time, copies of the CMMU's reports were again shared with representatives of WB and found by them to be of considerable value.

While early in September 1999, WB approval was granted for the Financing Proposal to support development of the CDA, obtaining GOA approval of the Financing Proposal remained problematic. As previously reported, it was not until October 1999, that the GOA

approved and the President signed a decree authorizing the WB loan to support development of the CDA.

As previously reported, since March 1999, activities have been on-going to support “commercialization” of the CDA. These have included both consolidation (see below Task D) and other efforts designed to focus the CDA on the need to promptly bring consolidated companies “under contract” (to have their registers maintained by the CDA). To support these efforts, during December 1999 we developed a “Marketing Action Plan” to assist in commercialization of the CDA and revised the self-sustainability plan which we have previously developed for the CDA. During January 2000, these activities included encouraging the SMI to send letters to companies noticing them of the requirement to use the services of the CDA and efforts to assess the legal impact and potential economic benefit to the CDA of GOA Decree #21, which was enacted on January 21, 2000.

As at the present time, based on the best information available to us, we now believe that as a result of GOA Decree #21 there could be as many as 105 state closed JSCs that will be reorganized into open JSCs. The suspected universe of shareholders of these companies is approximately 31,820. Accordingly, the effect of converting these companies to open JSCs could increase the universe of shareholders in the ROA by almost 20% (to approximately 187,000 shareholders) and potential revenues to the CDA by approximately the same percentage. Accordingly, during last month, working with the SMI, we developed a draft implementation program which was discussed and agreed with the SMI to support the SMI's efforts (as the implementing agency of the GOA) to reorganize all state closed joint stock companies falling under the provisions of Decree #21 to open JSCs. To further support this effort, during last month, we initiated steps to create a "Decree #21" database (D/B) for use by the SMI which will contain all relevant information concerning the 105 companies. During this month, efforts were mobilized to actively gather and analyze all available information concerning the 105 companies.

Over the past several months, the above and related efforts have been intensified and remain on-going to support commercialization of the CDA and to assist the CDA in receiving the proceeds approved for it under the GOA/WB loan to support development of the CDA. As of the date of this report, we must advise, however, that the CDA has not begun to receive proceeds under the GOA/WB loan. Importantly, part of the on-going process to assist the CDA is, as issues arise, to regularly re-visit the CDA's self-sustainability plan. Recent efforts have included a detailed legal review of a draft contract of engagement (between the CDA and client company) prepared by the CDA. As a result of this review, proposed changes to the draft contract were discussed and agreed by the CDA.

4. Task D. Development of Independent Registry(s)

To implement the activities envisaged in this task, beginning in late August 1998, our Expatriate share registry design and development specialist (SR Specialist) together with our Third Country National share registry development and consolidation specialists (SRC Specialists) commenced efforts to define the parameters for shareholder registry activities in the ROA. When fully developed, the parameters will include both general (required minimum) functional and specific requirements (to meet proposed changes to the Armenian laws and regulations on maintenance of a share registry). To that end, during November 1998, our SRC Specialists reached conclusions concerning the functional requirements of the shareholder registry system. As discussed in greater detail below, the functional requirements which we identified formed the basis for determination and recommendation of a shareholder registry software for use by the NCR/CDA. The specific requirements for the NCR/CDA system will be completed as the proposed changes are adopted to the laws and

regulations which govern share registry activities. In this regard, proposed amendments to the JSC Law have also been recommended to and approved by the GOA, and efforts continue to obtain adoption of same by the NA [see above Task A iii)].

As reported above, during February 1999, such sufficient progress had been made on reaching a basis of agreement between USAID and the GOA on the conditions for USAID support to the NCR/CDA that authorization was extended to make certain Phase I purchases to enhance the functional capacity of the NCR (see above Task B). At that time, efforts were also commenced to realize “pilot” and “mass” consolidation activities in accordance with a timetable and schedule which were agreed with USAID Representative Richards. In early March 1999, seven consolidation teams of two specialists each were hired and trained, and pilot consolidation activities were launched on March 22, 1999. The pilot consolidation activities were concluded by April 21, 1999 and, immediately thereafter, training for mass consolidation was commenced with mass consolidation beginning on May 1, 1999.

As previously reported, given that the estimated aggregate number of shareholders for all privatized open JSCs with 50 or more shareholders (which is currently estimated at approximately 134,508 and, for all privatized open JSCs with 25 and more shareholders and is estimated at approximately 141,896), it was agreed with representatives of USAID and the GOA that a single, centralized national shareholder register, designed as a privately-owned, non-commercial structure (either as part of or electronically connected to the CSD) was, for sustainability and other reasons, the most feasible course for Armenia to pursue. As a result, in April 1999, the CDA was created by a decree of the GOA which effectively reorganized the NCR into the CDA and added to its charter the functions of depository and clearance and settlement organization (see above Task B). To this end, efforts have and continue to focus on redefining the laws and regulations of the ROA which govern share registry activities. In this regard, we have been successful in obtaining GOA and NA Committee approval of certain proposed amendments we have recommended to the JSC Law which are now pending in the NA [see above Task A iii)].

In this connection, efforts were concluded in June 1999 to obtain a Consolidation Order or “Instruction” establishing the requisite authority in the SMI to enforce the requirement that all JSCs with 25 or more shareholders use the services of the NCR/CDA. The “Consolidation Instruction” was thereafter duly published by the GOA in July 1999.

As previously reported, during May 1999, as a result of various meetings and discussions involving, among others, USAID Representative Richards and our SR and SRC Specialists, a decision was taken and authorization given by USAID to increase the number of consolidation teams (from seven) to ten. The additional teams were promptly hired and trained and by July 1, 1999 began to support the mass consolidation process.

During our meetings and discussions with USAID Representative Richards in May 1999, substantive efforts were also directed toward defining the amount of time required to select, purchase, modify, install and make fully operational the share registry (software) system which is to be provided to the NCR/CDA. At that time, further consideration was given to the two share registry systems which had been previously determined by us as available from Russian software designers and the USAID “Rumanian” share registry system. After due consideration, authorization was extended by USAID Representative Richards to proceed with the purchase of the (Russian) AmberSoft Share Registry Software (“AmberSoft”) System. By early August 1999, the AmberSoft System had been installed, tested, and “accepted” by us on behalf of USAID for use by the CDA.

During USAID Representative Richards' visit in September 1999, we reviewed with her an action plan framework and timeline which we had developed to ensure timely completion of all phases of the work required to provide the NCR/CDA with a fully adapted and functionally operational share registry software system by January 2000. Accordingly, taking into account unanticipated time delays encountered in having more fully "Armenianize" the AmberSoft System than was originally intended, a fully adapted and functionally operational share registry software system was delivered to the CDA during February 2000. Since that time we have been working with the specialists and relevant staff of the CDA to fully train and encourage them to use the new system. While these efforts have encountered usual degree of reluctance to the use of a "new" software system, we believe significant progress has been achieved. At the end of May 2000, to complete this effort, a specialized CDA training program on "Registry Procedures and Software Training" was designed, developed and delivered to the staff of the CDA.

During USAID Representative Richard's visit in September 1999, considerable time was also spent in reviewing our (rate of) progress to that time in consolidating the share registers of privatized open joint stock companies with 50 (and 25) or more shareholders. While it was concluded that our rate of progress was satisfactory and that we were keeping to the schedule which we had developed in May 1999, mutual concerns were expressed and shared over the ability of the SMI to provide staff "in the field" to adequately support our consolidation activities outside Yerevan.

As reported above, during her visit in March 2000, as a requirement of the no-cost extension of the Project through the remainder of the year, USAID Representative Richards directed that consolidation activities be ceased at the end of April 2000. Accordingly, commencing during April 2000, the level of effort of our 10 consolidation teams was wound down such that by the end of the month all of our teams were discharged from further work under the Project and consolidation activities were formally ceased with due notice in advance to both the SMI and CDA. As a benchmark of the success of this activity, as of the cessation of consolidation activities at the end of April 2000, as a result of the mass (and pilot) consolidation activities conducted under the Project, when taking into account the number of share ownership records (24,698) maintained by the NCR at the time of commencement of these activities, based upon the best available information, 89.3% of the share ownership records of all privatized companies with 25 or more shareholders had been consolidated (or determined to be closed) and 93.2% of the share ownership records of all privatized companies with 50 or more shareholders had been consolidated (or determined to be closed). For more details, see **Attachment 14**.

To assist in our efforts to consolidate the shareholder registers of privatized open JSCs, we developed a database containing the names and location of all privatized companies and the number of shareholders of each company. At the time of cessation of our consolidation activities, the privatization database, taking into account information obtained through the consolidation process, contained the names of 493 privatized companies believed to have 50 or more shareholders and 712 privatized companies believed to have 25 or more shareholders (see **Attachments 15 and 16**).

To further support development of an appropriate regulatory framework to regulate the shareholder registry activities of the CDA, by the end of September 1999, drafting was completed and a "Shareholders' Registry Maintenance Regulation" was submitted for consideration by the SMI. To assist in the process of finalizing the regulation, the services of an expatriate Share Registry (SR) Specialist were called upon in August 1999. In addition to this task, during September 1999, the SR Specialist (whose activities were concluded that

month) performed various other tasks to significantly enhance the operational and performance capabilities of the CDA.

Efforts during October 1999, to facilitate a more seamless transfer of consolidated registers to the NCR/CDA, included completion of “transfer procedures” designed to enhance and improve the process of transferring consolidated registers from our “Consolidation Unit” to the NCR/CDA.

Given the foregoing, we have urged and continue to urge that, as a condition to USAID support to the NCR/CDA, the MOF/SMI require all JSCs with 50 (now 25) or more shareholders to use the NCR/CDA and that enforcement of that requirement begins with companies listed and traded on Armenia’s four licensed stock exchanges. Additionally, we have in the past and would continue to recommend that all companies listed and traded on a stock exchange be required to use the NCR (CDA) regardless of the number of the company’s shareholders.

5. Task E. Assistance to Trade Associations and Self Regulatory Organizations

As previously reported, to facilitate the tasks set forth herein, an Expatriate specialist in trade association development and broker and dealer training (Training Specialist) was mobilized in October 1998 and was later joined in March 1999 by another such Training Specialist. This was done to provide for a successor to our initial Training Specialist, and to prepare the way for the presentation of the formal training programs designed by us to meet various of the needs and purposes of the SRS Pilot Program. More specifically, two broker-dealer training programs entitled: “Financial Advisory and Underwriting” and “Securities Firm Operations and Management” were developed beginning in February 1999, and completed and delivered in April 1999. Activities to facilitate development of these and other SRS training programs included, among other things, meetings and discussions involving the officers and/or members-at-large of the Securities Market Members Association (SMMA) and Financial Market Specialists Association (FMSA).

Building on these initiatives, beginning in June 1999, efforts were made to involve representatives of the SMMA, Giumry Stock Exchange and SMI in the development of a more adequate and complete broker and dealer qualification training and testing program – “Broker and Dealer Qualification Training and Testing Program” – in the ROA (see above Task A). To this end, during June and July 1999, working with representatives from these organizations, we finalized preliminary efforts which led to the development of a set of 137 additional possible questions for consideration in the qualification training and testing process. These efforts were intensified during July 1999 such that, by the end of that month, we developed over 850 questions for consideration by the SMI use in testing the qualifications of brokers and dealers. As mentioned above (see task A), the training manual for brokers and dealers was completed by the beginning of February 2000 and, by May 2000, we had completed work on the question database (which was then fully populated) and testing software.

During September 1999, to support the efforts of the SMMA to achieve self-sustainability, discussions were held with a Senior Program Officer of Eurasia Foundation to consider a grant application which had been submitted (with our recommendation) by the SMMA to Eurasia Foundation. The purpose of the grant application was for the SMMA to obtain assistance in developing and providing a program of activities going-forward in the forthcoming year. As a result of conclusions reached during discussions with the Senior Program Officer for Eurasia Foundation, we are pleased to report that the SMMA is now receiving development grant assistance from Eurasia Foundation. Within the framework of

the assistance which the SMMA is receiving from the Eurasia Foundation we have and continue to work with the SMMA to satisfy the requirements of the Eurasia Foundation grants as well as to otherwise work with the SMMA to assist and support in its institutional development (see herein below). These activities, as well, include current efforts with the SMMA and Eurasia Foundation to define the basis going-forward for further grant assistance to the SMMA.

As a result of these and other efforts which have been undertaken with the SMMA, during discussions in January 2000 involving representatives of the SMI, the SMMA was (for the present time) identified as the future (potential) SRO for brokers and dealers. To that end, the SMMA was also (for the present time) designated by the SMI as the institutional home for broker-dealer training under the Broker-Dealer Qualification Training and Testing Program. During January 2000, the first such training effort (to train trainers from among PSMPs to train future examiners) was provided by us in conjunction with both the SMI and SMMA.

To build on these initiatives, as reported above, as a result of discussions held with USAID Representative Richards during her visit in March 2000, additional institution building activities to support the continued development of the SMMA were proposed for approval by USAID. These activities were designed to: i) leverage the experience of the SRS Pilot Program, ii) establish the SMMA as coordinator of the brokers' participation in future privatization initiatives, and iii) establish within the SMMA a "Broker Assistance Center." As also reported above (see Task A), as a result of subsequent discussions with USAID Representative Richards, we were directed that we were only to provide further institutional development support to the SMMA in the form of certain agreed activities to "leverage on the experience of the SRS Pilot Program". We are pleased to report that during June 2000, as discussed in detail above in Task A, these activities and their objectives were successfully realized through the provision of two very well received training programs. For details, see Task A and **Attachment 17**.

As also reported in Task A, for the present time, a decision has been taken by us to defer from placing a Broker Qualification Testing Center in the SMMA. Factors contributing to this decision include concerns for the organizational structure and governance practices of the SMMA, the ability of the SMMA to become self-sustaining, the current low level of membership (among broker-dealer firms) in the SMMA, and the SMMA's current lease arrangements. To deal with these concerns and others, during the month, steps were aggressively taken to cause the SMMA's management to – focus beyond the SMMA's current membership, better understand the wants and needs of the broker-dealer community at large, and reach out to the broker-dealer community in a manner more likely to attract and increase the SMMA's membership. To do this, among other activities, we caused the SMMA to develop and distribute a questionnaire (see **Attachments 18 and 19**) to the broker-dealer community seeking their input for the SMMA to better understand the wants and needs of all brokers and dealers and to guide the SMMA in considering how to attract new membership to the SMMA. These efforts were also designed to cause organizational and structural changes within the SMMA and to encourage the SMMA's membership to look for leadership from outside the SMMA's current management and to foster greater participation by all members in the governance of the SMMA (see **Attachment 20**). As a result of these and other related efforts, we are pleased to report a dramatic increase in the SMMA's membership (during June 2000, the SMMA attracted three new member firms increasing its membership among broker/dealer firms by 25% - from 12 to 15 broker/dealer member firms - see **Attachment 21**). We are also pleased to report that we are beginning to see strong evidence of the SMMA's determination to meet the challenge of expansion and to become the primary representative membership association for brokers and dealers in Armenia and, in doing so, to improve its chances for self-sustainability and to become an SRO.

It is also to be noted that, to satisfy certain technical assistance needs of the SMMA which were identified with the USAID Assessment Team in January 2000 (and which formed a portion of the basis on which the Project was extended from the end of February 2000 to the end of April 2000), a BDA/SRO Specialist was mobilized during March 2000 and promptly commenced an intensive review and audit to determine the existence and sufficiency of, among other things, the Charter and By-laws, as well as practices and procedures of the SMMA. As a result of this effort, a number of deficiencies were noted in the Charter of the SMMA, including the more usual “by-law” type provisions which are contained within the SMMA’s Charter but fail to meet the standards necessary for the SMMA to qualify as an SRO. It was also determined that for the SMMA to qualify as an SRO, certain requirements would need to be met (in addition to amendments and additions to the SMMA’s Charter and the creation of a separate set of By-laws) including Membership Standards and Rules, Fair Practice and Conduct Codes, Advertising Standards, Trading and Settlement Rules, and Disciplinary and Arbitration Procedures. For more specific details of the needs assessment rendered by our BDA/SRO Specialist, see **Attachment 22**. As a consequence, an SMMA “Documents Outline” was created (see **Attachment 23**), proposed amendments to the SMMA’s Charter were developed (see **Attachment 24**), a “SMMA/SRO By-Laws Needs Outline” was created (see **Attachment 25**), draft By-laws were developed for the SMMA (see **Attachment 26**), and a list was developed of “Steps to Transformation” of the SMMA from a professional association to a qualifying SRO (see **Attachment 27**). In addition to the foregoing, drafts of the following required rules, codes and procedures were developed by the BDA/SRO Specialist: i) Membership Rules; ii) Fair Practice Rules; iii) Code of Ethics and Standards of Professional Conduct; iv) Uniform Practice Code; v) Arbitration Code; vi) Disciplinary Procedures Code; and vii) a list of Marketplace Rules was created for the future development of trading systems.

Based on discussions with the staff of the SMI, the BDA/SRO Specialist also determined that certain necessary regulations were absent from the current regulatory framework for the regulation of broker and dealer activities. Considering same, the BDA/SRO Specialist developed guidelines to be followed by the SMI and SMMA/SRO on establishing requirements for broker and dealer: i) Books and Records; ii) Net Capital; and iii) Margin. Based on the above and other efforts by the BDA/SRO Specialist, first steps are now underway with the SMMA, including the IESC Volunteer currently here to provide assistance to the SMMA, to have the SMMA undertake, among other things, to amend its Charter and establish appropriate By-laws and internal regulations required for it to function more effectively as the primary membership association for brokers and dealers in the ROA.

Importantly, as well, during March 2000, in furtherance of on-going efforts by the SMMA to satisfy the requirements of the grants which the SMMA has received from the Eurasia Foundation, the SMMA completed substantial work in development of a “Guidebook on Joint Stock Companies in the Republic of Armenia” and began with our assistance to offer a series of training sessions to prospective PSMPs on “Management, Marketing and Regulation of Broker/Dealer Activities.” These activities continued into May 2000, during which, among other related activities, we completed efforts to put the SMMA’s Guidebook on Joint Stock Companies into a management database system (HTML Version) which we had developed for that purpose. Importantly, as well, during May 2000, activities were completed to make the SMMA's Guidebook on Joint Stock Companies accessible through the SMMA Web Site (Homepage), the development of which was also completed during May 2000 (see **Attachment 13**). During June 2000, efforts continued to assist the SMMA to qualify for further grant assistance from Eurasia Foundation. With our guidance and assistance, we believe that this will be accomplished on the basis of a sound proposal

designed to more effectively foster and support the SMMA's growth as a more appropriate, more universally representative membership association for brokers and dealers in the ROA.

6. Task F. *Training for Professional Market Participants*

As indicated above, to facilitate the activities specified in this Task and, as well, those specified in Task E, a Training Specialist was initially mobilized in October 1998. By the end of November 1998, as a result of numerous interviews and surveys which had been conducted by the Training Specialist to evaluate the needs of the TAs and brokers and dealers (and all PSMPs) in the ROA, a draft training plan (Draft Training Plan) and a draft training schedule was prepared and later revised in March 1999. During May 1999, a further revised "Training Program" for the project was developed and provided to USAID Representative during her site visit to the project. It is envisaged that all training programs developed for the TAs and brokers and dealers (and other PSMPs) will also be provided to or made available for participation by the staff of the SMI.

To complement the activities of our initial Training Specialist and, at the same time, supplement these efforts with much needed training for company managers and directors (as well as PSMPs and others) on the (financial) advantages of good corporate governance practices, an additional Training Specialist (our second) was mobilized in late January 1999. Together, during February 1999, the two Training Specialists developed and delivered two "workshop" styled programs on "Corporate Governance and Competitiveness" – one in Giumry and the other in Yerevan.

During March 1999, to implement certain of training activities set forth in the Draft Training Plan, our initial Training Specialist (who completed his activities during that month) provided training on a range of topics to a varied audience of brokers and dealers, many of whom are members of the SMMA and FMSA. To further complement and supplement the activities of our initial Training Specialist, another such Training Specialist (our third) was mobilized during March 1999. This was done to facilitate the further design, development and delivery of certain of the SRS training programs which we began to design in February 1999. In particular, this Training Specialist was tasked to develop and deliver much needed training for brokers (and dealers) in brokerage operations and management. This resulted in the design, development and delivery in April 1999 of two broker-dealer/SRS training programs (one on "Financial Advisory and Underwriting" and the other on "Securities Firm Operations and Management").

After delays between April and October 1999 in obtaining the necessary GOA approvals and decrees to proceed forward, the SRS Pilot Program moved into "full swing" in November 1999. After delivery in December 1999 of an intensive series of training initiatives and activities which were designed to increase the likelihood of success of the SRS Pilot Program, the SRS Pilot Program moved into "high-gear" and was very successfully concluded in March 2000. During June 2000, as described in detail in Task A, to strengthen the institutional capacity of the SMMA, two additional institution building training programs were developed around the SRS Program and delivered in close cooperation with the SMMA. Importantly, as well, these programs provided valuable training to over 45 PSMPs, including 11 SMI staff members.

In addition to the foregoing, efforts intensified beginning in December 1999 with the SMI to realize the fullest of benefits from the Broker-Dealer Qualification Training and Testing Training-of-Trainer Program which was successfully completed during November 1999. Importantly, these efforts were successful in having the SMI recognize the SMMA as the institutional home at the present time for broker-dealer qualification training in the ROA and

as the best potential future SRO for brokers and dealers in the ROA. Importantly, as well, as generally described in Task E above, through grant assistance from the Eurasia Foundation and T/A from the Project, the SMMA has begun to provide valuable training to support securities market development in the ROA and, by doing so, to become recognized as the membership association of choice by brokers and dealers in the ROA.

During May 2000, as described in Task A above, to ensure the fullest use of the CMMU database and software system which we developed for use by the SMI, a specialized training program was developed and provided for the staff of SMI. As also generally discussed in Task D above, to ensure the fullest use of the registry software system which we purchased and adapted for use by the CDA, a specialized training program was developed and provided for the staff of the CDA. For details concerning both of these activities, see **Attachment 28**. Other related activities during the quarter included participation in an Economic Journalism Speakers Series seminar sponsored by AED which took place on May 5, 2000 and was entitled: "An Analysis of the Current State of Development in Armenia's Capital Markets." Additionally, we also took part with representatives from the SMI in a European Bank for Reconstruction and Development (EBRD) program which took place in Yerevan on May 22-25, 2000 to consider EBRD Working Committee recommendations on a proposed draft CIS Model Law on Securities Regulation.

Respectfully submitted,

Donald R. Hart
Chief of Party/Project Manager
USAID Capital Markets Development Project

**List of Attachments
to
Quarterly Report for the Period Ending June 2000**

Attachment 1	Focused Areas of Activity between September 1999 and January 2000 as Discussed and Agreed in Meetings Held with USAID Representative Ann Richards during September 15 to 21, 1999
Attachment 2	E-mail from USAID Representative Ann Richards on Project Extension dated March 22, 2000
Attachment 3	Draft Work-Plan Status Report at April 30, 2000
Attachment 4	USAID Notice to Proceed (NTP) under Task Order dated April 26, 2000
Attachment 5	Memorandum on Securities Commission: Legislative Regulation of the Composition and Appointment dated April 12, 2000
Attachment 6	Memorandum on Securities Commission: Legislative Regulation of Composition and Appointment dated April 12, 2000
Attachment 7	E-mail to USAID Representatives Ann Richards and Michael Greene on Status of Draft SMR Law dated June 30, 2000
Attachment 8	Media Coverage of Capital Market Development Issues for the Period from February 2000 to May 2000
Attachment 9	Memorandum on CMMU Activities during May 2000 dated June 5, 2000
Attachment 10	Pilot SRS Assessment Report dated April 30, 2000
Attachment 11	Preliminary Draft on Outline of Activities for Development of SMMA dated March 23, 2000
Attachment 12	Memorandum on SRS Training dated June 16, 2000
Attachment 13	Software Products Status Report dated May 31, 2000
Attachment 14	Memorandum on Consolidation Report dated April 25, 2000
Attachment 15	Information on Privatized JSCs with 50 or More Shareholders dated May 2, 2000
Attachment 16	Information on Privatized JSCs with 25 or More Shareholders dated May 2, 2000
Attachment 17	Memorandum in SRS Training dated June 16, 2000
Attachment 18	Memorandum on Broker/Dealer Questionnaire Developed by SMMA dated June 5, 2000
Attachment 19	Memorandum on Organization of Broker/Dealer Questionnaire in Collaboration with SMMA dated June 20, 2000
Attachment 20	Memorandum on Coordination of SMMA Current Activities dated June 22, 2000
Attachment 21	Memorandum on Brief Information about SMMA Members (as Association of Legal Entities) dated June 28, 2000
Attachment 22	Memorandum on Assessment of SMMA Status to be an SRO dated April 21, 2000
Attachment 23	SMMA Documents Outline dated April 20, 2000
Attachment 24	SMMA Charter dated April 20, 2000
Attachment 25	SMMA By-laws Needs Outline dated April 20, 2000
Attachment 26	SMMA (Draft Proposed) By-laws dated April 20, 2000
Attachment 27	Steps to Transformation of SMMA from Solely a Professional Association to Qualifying as an SRO dated April 20, 2000
Attachment 28	Training Activities during the Month of May 2000